ABBE, INC.
AND SUBSIDIARIES
Cedar Rapids, Iowa

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005 and 2004

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Independent Auditor's Report

Board of Directors
Abbe, Inc.
Cedar Rapids, Iowa

We have audited the accompanying consolidated statements of financial position of Abbe, Inc. and subsidiaries as of June 30, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of Abbe, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Abbe, Inc. and subsidiaries as of June 30, 2005 and 2004, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
September 2, 2005

FINANCIAL STATEMENTS

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

ASSETS

	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	$ 2,181,564	$1,737,769
Cash, restricted, resident trust accounts	75,742	82,922
Certificates of deposit, current portion	84,787	178,607
Receivables:		
Accounts receivable, less allowance for doubtful accounts of $100,000 in 2005 and 2004	1,334,573	1,242,173
Contributions receivable, current portion, less allowance for uncollectible contributions of $8,000 in 2005	327,681	331,269
Prepaid expenses	111,637	292,522
Total current assets	4,115,984	3,865,262
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments	270,207	167,218
Contributions receivable, less current portion above	51,689	36,383
Total investments and long-term receivables	321,896	203,601
PROPERTY AND EQUIPMENT		
Land	538,023	538,023
Buildings and improvements	4,234,705	3,655,041
Leasehold improvements	139,640	132,674
Furniture and equipment	2,375,279	2,063,233
Vehicles	297,958	328,404
Total	7,585,605	6,717,375
Less accumulated depreciation	2,470,772	2,219,896
Net property and equipment	5,114,833	4,497,479
OTHER ASSETS		
Debt-issuance costs, less accumulated amortization of $349	27,607	-
TOTAL ASSETS	$ 9,580,320	$8,566,342

LIABILITIES AND NET ASSETS

	2005	2004
CURRENT LIABILITIES		
Accounts payable	$ 468,600	$ 426,010
Accrued expenses:		
Accrued vacations	676,842	667,186
Other accrued expenses	466,048	449,423
Due to government agencies, primarily to Linn County	-	63,220
Deferred income	-	17,248
Resident trust funds	75,742	82,922
Notes payable, current maturities	57,353	47,607
Current maturities of obligations under capital leases	11,409	15,123
Total current liabilities	1,755,994	1,768,739
LONG-TERM LIABILITIES		
Due to Linn County, Abbe Center for Community Mental Health, Inc.	102,842	102,842
Notes payable, less current maturities above	1,390,266	1,420,692
Obligations under capital leases, less current maturities above	11,408	22,818
Total long-term liabilities	1,504,516	1,546,352
Total liabilities	3,260,510	3,315,091
NET ASSETS		
Unrestricted	5,571,399	4,742,250
Temporarily restricted	730,822	491,412
Permanently restricted	17,589	17,589
Total net assets	6,319,810	5,251,251
TOTAL LIABILITIES AND NET ASSETS	$9,580,320	$8,566,342

These consolidated financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to consolidated financial statements.

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2005 and 2004

	2005		
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**
PUBLIC SUPPORT AND REVENUE			
Client and resident fees	$13,430,384	$ -	$ -
Grants	1,482,185	193,957	-
Auxiliary	208,789	-	-
Interest	30,674	-	-
Rent	35,905	-	-
Contributions	707,577	239,191	-
Other	322,313	-	-
Net assets released from restrictions	193,738	(193,738)	-
Total public support and revenue	16,411,565	239,410	-
EXPENSES			
Program services:			
Mental health services	5,312,465	-	-
Care facilities	6,033,421	-	-
Services for the aging	2,813,218	-	-
Total program services	14,159,104	-	-
Supporting services:			
Management and general	1,392,408	-	-
Fundraising	30,904	-	-
Total supporting services	1,423,312	-	-
Total expenses	15,582,416	-	-
CHANGE IN NET ASSETS	829,149	239,410	-
NET ASSETS, BEGINNING OF YEAR	4,742,250	491,412	17,589
NET ASSETS, END OF YEAR	$ 5,571,399	$ 730,822	$ 17,589

	2004			
Total	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
$ 13,430,384	$ 13,475,291	$ -	$ -	$ 13,475,291
1,676,142	1,370,769	184,061	-	1,554,830
208,789	221,025	-	-	221,025
30,674	35,330	-	-	35,330
35,905	35,880	-	-	35,880
946,768	416,159	36,383	-	452,542
322,313	304,671	-	-	304,671
-	188,547	(188,547)	-	-
16,650,975	16,047,672	31,897	-	16,079,569
5,312,465	5,283,567	-	-	5,283,567
6,033,421	6,451,439	-	-	6,451,439
2,813,218	2,357,290	-	-	2,357,290
14,159,104	14,092,296	-	-	14,092,296
1,392,408	1,356,942	-	-	1,356,942
30,904	14,949	-	-	14,949
1,423,312	1,371,891	-	-	1,371,891
15,582,416	15,464,187	-	-	15,464,187
1,068,559	583,485	31,897	-	615,382
5,251,251	4,158,765	459,515	17,589	4,635,869
$ 6,319,810	$ 4,742,250	$ 491,412	$ 17,589	$ 5,251,251

These consolidated financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to consolidated financial statements.

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$1,068,559	$ 615,382
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Interest and dividends reinvested	(2,037)	(212)
Unrealized (gain) loss on investments	4,261	(1,310)
Provision for bad debts	48,254	42,557
Depreciation and amortization	297,610	285,194
(Gain) loss on disposal of equipment	-	(2,808)
Contributions restricted for property and equipment	(534,393)	(23,145)
Discount on below market interest rate loan	(223,885)	-
Net operating assets acquired in affiliation of Witwer Center, Inc.	-	25,878
Effects of changes in operating assets and liabilities:		
Cash, restricted, resident trust accounts	7,180	5,420
Receivables	(152,372)	(387,680)
Prepaid expenses	180,885	(57,188)
Accounts payable and accrued expenses	68,871	233,834
Due to government agencies	(63,220)	(244,885)
Deferred income	(17,248)	328
Resident trust funds	(7,180)	(5,420)
Net cash provided by operating activities	675,285	485,945
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired in merger of Witwer Center, Inc.	-	83,562
Proceeds from sale of equipment	-	3,425
Purchases of property and equipment	(914,615)	(737,390)
Proceeds from sale of investments	218,607	55,000
Purchases of investments	(230,000)	(125,000)
Net cash used in investing activities	(926,008)	(720,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	711,448	465,000
Payments on long-term debt	(508,243)	(439,124)
Payments on capital leases	(15,124)	(13,997)
Payment of debt-issuance costs	(27,956)	-
Cash contributions received, restricted for property and equipment	534,393	23,145
Net cash provided by financing activities	694,518	35,024
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	443,795	(199,434)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,737,769	1,937,203
CASH AND CASH EQUIVALENTS, END OF YEAR	$2,181,564	$1,737,769

These consolidated financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to consolidated financial statements.

ABBE, INC. AND SUBSIDIARIES
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2005 and 2004

Abbe, Inc. was incorporated on August 7, 1991 in the state of Iowa for the promotion of mental health care and the prevention of mental illness through community education. Abbe, Inc. is the sole voting member of the following entities:

The Abbe Center for Community Mental Health, Inc. (the Center) provides outpatient psychiatric services, psychotherapy and supportive treatment services for persons with mental health problems and psychiatric illnesses with the purpose of assisting those persons to prevent hospitalization and remain independently functioning in the community. These services are provided to residents of Linn, Jones and Benton counties and surrounding communities through service receipts from Linn, Jones and Benton counties.

The Abbe Center for Community Care, Inc. (the Care Facility) provides housing and care for mentally disabled in need of supervision or assistance in their daily living. These services are provided to residents of Linn County and surrounding communities through per diem rates from Linn County, state and federal programs, and charges to residents.

The Penn Center, Inc. provides housing and care for mentally disabled in need of supervision or assistance in their daily living. These services are provided to residents of Delaware County and surrounding communities through per diem rates from Delaware County, state and federal programs, and charges to residents.

Aging Services, Inc. provides assistance to the elderly in the Linn County area through adult day care services and home-based support services. These services are provided through cost-sharing between the individuals and funding sources.

Pentacrest, Inc. provides assistance to the elderly in the Johnson County area through adult day care services and home-based support services. These services are provided through cost-sharing between the individuals and funding sources.

Abbe Management Corporation was established for the purpose of managing and providing behavioral health care services in Linn County, Iowa and surrounding counties. These services are provided to the managed practices under a management fee arrangement.

Witwer Center, Inc. provides a place where the elderly can meet, receive services, and take part in activities which enhance their dignity and preserve their independence. The center is a Title VII nutrition site serving Cedar Rapids and surrounding communities with on site meals. Home delivered meals are provided for those unable to make it to the congregate meal sites.

The Organization's fiscal year ends on June 30. Significant accounting policies followed by the Organization are presented below.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

ABBE, INC. AND SUBSIDIARIES
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2005 and 2004

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all entities described on the previous page. All significant intercompany accounts and transactions have been eliminated in consolidation.

CASH EQUIVALENTS

The Organization considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

ACCOUNTS RECEIVABLE

Accounts receivable are uncollateralized customer obligations which generally require payment within thirty days from the invoice date. Accounts receivable are stated at the invoice amount. Account balances with invoices over ninety days old are considered delinquent. Payments of accounts receivable are applied to the specific invoices identified on the customers remittance advice or, if unspecified, to the earliest unpaid invoices. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management reviews individual accounts receivable balances that exceed ninety days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for losses. In addition, a general valuation allowance is established based principally on historical experience.

INVESTMENTS

Investments are carried at fair value, determined by quoted market prices, and the net appreciation or depreciation in fair value of investments is reported as an increase or decrease in unrestricted net assets. Interest and dividends are recorded as income when earned. Investment income is also reported in the statement of activities as unrestricted revenue.

PROPERTY AND EQUIPMENT

Purchased property and equipment is recorded at cost while contributed property and equipment is recorded at estimated fair value at the date of gift. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets. The depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets.

DEBT-ISSUANCE COSTS

Debt-issuance costs are being amortized over the 20 year term of the loan.

NET ASSETS

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted
Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted.

Temporarily Restricted
Temporarily restricted net assets includes contributed net assets for which donor-imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

Permanently Restricted
Permanently restricted net assets includes contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

SUPPORT AND REVENUE

Client and resident fee revenue is recognized, at estimated collectable amounts, in the period the services are performed, net of third-party contractual adjustments and foregone charges for services and supplies furnished to clients who cannot pay. Fees received in advance of services performed are recorded as deferred income.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recorded as receivables and as support when received. Conditional contributions are not recorded until all conditions have been satisfied, at which time they are recognized as support. Advances received on conditional contributions are recorded as refundable advances until all conditions have been satisfied.

Bequests are recorded when the probate court declares the will valid and the amount is determinable.

Contributions of donated goods are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

SUPPORT AND REVENUE (CONTINUED)

Contributed property and equipment are recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

INCOME TAXES

All entities described above, with the exception of Abbe Management Corporation, are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

For Abbe Management Corporation, deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - RESTATEMENT OF 2004 BEGINNING NET ASSETS

Witwer Center, Inc. became an affiliate of the Organization, effective July 1, 2003. Witwer Center, Inc.'s net assets at the time of affiliation were $417,070, which consisted of $362,660 unrestricted, $36,821 temporarily restricted, and $17,589 permanently restricted net assets. The 2004 beginning net assets have been restated as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year, as previously stated	$3,796,105	$ 422,694	$ -	$4,218,799
Witwer Center, Inc. net assets, at time of affiliation	362,660	36,821	17,589	417,070
Net assets, beginning of year, as restated for 2004	$4,158,765	$ 459,515	$ 17,589	$4,635,869

NOTE 2 - UNCONDITIONAL PROMISES TO GIVE

Included in contributions receivable are the following unconditional promises to give:

	2005	2004
United Way	$ 193,957	$ 186,060
Building campaign pledges	193,413	181,592
Gross unconditional promises to give	387,370	367,652
Less: Allowance for uncollectible contributions	(8,000)	-
Total unconditional promises to give	$ 379,370	$ 367,652
Amounts due in:		
Less than one year	$ 335,681	$ 331,269
One to five years	51,689	36,383
Total	$ 387,370	$ 367,652

NOTE 3 - CONDITIONAL PROMISES TO GIVE

The following conditional promise to give was not recognized as an asset in the statement of financial position:

Conditional promise to give toward the Witwer Senior Center facility expansion and renovation upon incurrence of qualified reimbursable expenses	$ 298,230

NOTE 4 - INVESTMENTS

Investments consist of the following:

	Market Value	
	2005	2004
Money market funds	$ 6,647	$ 6,213
Long-term certificates of deposit	227,122	124,773
Marketable equity securities	36,438	36,232
	$ 270,207	$ 167,218

NOTE 5 - DEBT

Lines of credit

The Organization has a line of credit agreement with a bank under which it can borrow up to $300,000 in current notes payable. Borrowings under this agreement are unsecured and bear interest at the bank's prime rate. There are no borrowings outstanding under this agreement at June 30, 2005 and the agreement expires in November 2005. As part of the agreement with the bank, there are certain covenants that the Organization must comply with.

Aging Services, Inc. also has a line of credit agreement with a bank. The agreement authorizes maximum borrowings of $500,000 with interest at 5.25%. The agreement extends through June 4, 2007. There were no outstanding borrowings at June 30, 2005.

Long-term debt

	2005	2004
Obligation due to Linn County for the Center initial reserve fund allocation. This obligation is due upon the Organization terminating certain services.	$ 102,842	$ 102,842

Notes payable consists of the following:

Note payable to the Iowa Finance Authority with a maximum face value of $800,000, of which $711,448 had been drawn at June 30, 2005. Interest accrues at 1% per annum. Monthly payments, of interest only, on principal outstanding, are payable until the last advance has been drawn. Then, equal monthly installments of principal and interest are payable. These monthly installments are anticipated to be approximately $3,300. Final payment is due in April 2025 and the note is secured by land and building. The note is recorded net of imputed interest calculated using an interest rate of 5.25%. At June 30, 2005, the principal balance of this note, net of imputed interest, was $487,563. The discount for imputed interest is being amortized based on the maturity date of the note in 2025. The unamortized discount totals $223,885 at June 30, 2005.	$ 487,563	$ -

NOTE 5 - DEBT (CONTINUED)

	2005	**2004**
Mortgage payable to bank, requiring quarterly, interest-only payments until March 2005 at which time monthly installments of $3,756 will be required, including variable rate interest at 5.25% at June 30, 2004. Final payment was made during the current year.	$ -	$ 465,000
Office facility revenue bond issued by Linn County, Iowa, payable to bank. The bond requires monthly installments of $7,323, including interest at 5.76% until February 2012 when the rate will be adjusted for the next ten years. Final balloon payment is due in January 2022, secured by land and building.	936,216	969,779
Note payable to GMAC Financial Services requiring monthly installments of $447, including interest at 0%. Final payment is due in December 2007, and the note is secured by a vehicle.	13,405	18,767
Note payable to GMAC Financial Services requiring monthly installments of $360, including interest at 0%. Final payment is due in December 2007, and the note is secured by a vehicle.	10,435	14,753
Total	1,447,619	1,468,299
Less current portion of notes payable	57,353	47,607
Long-term portion of notes payable	$1,390,266	$1,420,692

Future maturities of long-term debt are as follows:

Year ending June 30,	
2006	$ 57,353
2007	164,613
2008	59,931
2009	58,263
2010	61,619
Thereafter	1,148,682
Total	$1,550,461

Obligations under capital leases

The Organization is leasing equipment under a capitalized lease, expiring in May 2007. The cost of the equipment, which is included in furniture and equipment, is $47,110, and the accumulated depreciation is $27,477 at June 30, 2005.

NOTE 5 - DEBT (CONTINUED)

Future minimum lease payments under this lease are as follows:

Year ending June 30,	
2006	$ 13,019
2007	11,934
Total minimum lease payments	24,953
Less amount representing interest	2,136
Present value of minimum lease payments	$ 22,817

NOTE 6 - NATURE AND AMOUNT OF PERMANENT AND TEMPORARY RESTRICTIONS

	2005	2004
Temporarily restricted net assets are available for the following purposes:		
Subsequent years operation	$ 469,532	$ 220,444
Subsequent years facility usage	261,290	270,968
Total temporarily restricted net assets	$ 730,822	$ 491,412

Permanently restricted net assets include endowments totaling $17,589, which must be invested in perpetuity, the income from which is expendable on the Organization's operations.

NOTE 7 - AGREEMENTS WITH LINN COUNTY

Revenue generated from Linn County for the Care Facility, Center and Aging Services, Inc. were as follows for the years ended June 30, 2005 and 2004:

	2005	2004
Client and resident fees:		
Care Facility contract	$2,334,296	$2,699,118
Mental Health Center contract	961,622	928,552
Other grants and programs	86,099	62,530
Total	$3,382,017	$3,690,200

The Care Facility contract expires June 30, 2006.

Under the Mental Health Center contract, which expires June 30, 2006, Linn County authorizes who is eligible for services.

NOTE 8 - CASH FLOW DISCLOSURES

Cash paid for interest was $77,168 and $83,682 for the years ended June 30, 2005 and 2004, respectively. For the year ended June 30, 2005, $19,140 of interest costs incurred were capitalized.

NOTE 9 - OBLIGATIONS UNDER OPERATING LEASES

The Care Facility leases facilities and equipment from Linn County under a lease expiring June 2006, but is cancellable by either party upon ninety days' notice. The annual rental totals $110,000 and the Care Facility pays for certain maintenance, utilities and insurance costs.

Abbe Management Corporation and the Mental Health Center lease administrative and office space and other buildings under various leases expiring in October 2009. The leases require monthly payments totaling $7,336.

The Center leases other facilities on a month-to-month basis, which includes the facilities of the Center.

The Organization is leasing various equipment under twenty-five operating leases expiring between August 2005 and June 2009. The leases require monthly payments totaling $8,357.

Lease expense for the years ended June 30, 2005 and 2004 was $464,650 and $520,712, respectively.

Future minimum lease payments for operating leases that have initial noncancelable lease terms in excess of one year, are as follows:

Year ending June 30,	
2006	$ 178,618
2007	157,789
2008	116,533
2009	94,669
2010	29,344
Total	$ 576,953

NOTE 10 - RETIREMENT PLANS

The entities have a defined contribution retirement plan covering substantially all nonunion employees. Contributions, which are 6% of each covered employee's compensation up to $70,000, totaled $333,797 and $278,072 for the years ended June 30, 2005 and 2004, respectively.

NOTE 10 - RETIREMENT PLANS (CONTINUED)

The Care Facility also sponsors a retirement plan in accordance with a negotiated labor contract. The retirement plan covers all of their union employees. Contributions, which are based on varying rates for the hours worked by the employee, totaled $109,685 and $115,062 for the years ended June 30, 2005 and 2004, respectively.

NOTE 11 - DONATED FACILITIES

The annual use of Witwer Center, Inc.'s facilities is donated by Linn County, Iowa. At June 30, 2005 and 2004, the estimated rental values of these facilities, $46,685 and $44,004, respectively, have been reflected in the accompanying financial statements as support with a like amount included in occupancy expense.

NOTE 12 - INCOME TAXES

Deferred tax assets consist of the following:

	2005	2004
Tax benefit of net operating loss carryforwards	$ 37,000	$ 37,000
Valuation allowance	(37,000)	(37,000)
Net deferred tax asset	$ -	$ -

A valuation allowance has been recorded on the deferred tax asset to reduce the total to an amount that management believes will ultimately be realized. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that the carryforwards are available to reduce taxable income.

Abbe Management Corporation has approximately $180,000 available in net operating loss carryforwards which can be offset against future taxable income of the subsidiary. The carryforwards expire in various amounts from 2009 to 2024.

NOTE 13 - SELF-INSURED DENTAL PLAN INFORMATION

Dental claims of participants and dependents are processed by Employee Benefit Systems. The plan is responsible for paying dental benefits up to a pre-established maximum amount for any one participant or dependent. Claims in excess of this maximum are covered by a policy with an insurance company.

NOTE 13 - SELF-INSURED DENTAL PLAN INFORMATION (CONTINUED)

Plan obligations at June 30, 2005 for dental claims incurred by active participants but not reported at that date are calculated based on claims submitted subsequent to year end and an estimate based on plan history for unremitted claims. There were no accrued plan obligations at June 30, 2005. Management believes this accrual is adequate based on information currently known. However, claim payments based on actual claims ultimately filed could differ materially from this estimate.

NOTE 14 - PROPERTY LIEN

In consideration of a contribution received from the City of Iowa City for the purchase and establishment of a facility to provide dependent care services to low-income persons who are elderly or disabled, a lien in the amount of $300,000 has been established in favor of the City as lienholder upon the Pentacrest property. Repayment of the $300,000 is required if the Organization does not continue to provide these services for a period of thirty years. The lien will expire in June 2032.

NOTE 15 - BENEFICIARY OF DESIGNATED FUNDS

A designated fund on behalf of Witwer Center, Inc. has been established by a donor with The Greater Cedar Rapids Community Foundation. In establishing a designated fund, the donor selects a specific nonprofit institution as the recipient, and grants are made to it annually as long as the named institution remains in existence and continues to fulfill its intended purpose.

The balance of the fund was $38,372 and $35,583 at June 30, 2005 and 2004, respectively. During the years ended June 30, 2005 and 2004, the Organization received $1,637 and $1,518, respectively, from this fund.

NOTE 16 - CURRENT VULNERABILITY - COLLECTIVE BARGAINING AGREEMENT

Substantially all of the Care Facility's nonmanagement employees are covered by a collective bargaining agreement. The agreement is scheduled to expire September 30, 2005. If the Organization and union representing the Care Facility's nonmanagement employees are unable to agree on a new contract prior to expiration of the current contract, a work stoppage may occur that could adversely affect results of operations.

SUPPLEMENTAL INFORMATION

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2005

	Abbe, Inc.	Abbe Management Corporation	Abbe Center For Community Mental Health	Abbe Center For Community Care, Inc.
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$1,364,096	$ 14,175	$ 203,546	$ 194,630
Cash, restricted, resident trusts	-	-	-	51,334
Certificates of deposit, current portion	-	-	-	-
Accounts receivable, less allowance	2,179	-	679,504	256,419
Contribution receivable, current portion, less allowance for uncollectible contributions of $8,000	-	-	-	-
Due from affiliates	480,505	102,508	795,249	31,846
Notes receivable, current portion	15,683	-	-	-
Prepaid expenses	4,257	769	45,534	14,506
Total current assets	1,866,720	117,452	1,723,833	548,735
INVESTMENTS AND LONG-TERM RECEIVABLES				
Investments	18,140	-	-	-
Notes receivable, less current portion above	340,389	-	-	-
Contribution receivable, less current portion above	-	-	-	-
Total investments and long-term receivables	358,529	-	-	-
PROPERTY AND EQUIPMENT				
Land	197,750	-	-	-
Buildings and improvements	1,211,994	-	-	-
Leasehold improvements	-	4,666	36,528	62,202
Furniture and equipment	418,472	58,860	704,423	278,919
Vehicles	10,555	-	55,878	176,942
Total	1,838,771	63,526	796,829	518,063
Less accumulated depreciation	435,985	38,689	682,698	372,280
Net property and equipment	1,402,786	24,837	114,131	145,783
OTHER ASSETS				
Debt-issuance costs, less accumulated amortization of $349	-	-	-	-
TOTAL ASSETS	$3,628,035	$ 142,289	$1,837,964	$ 694,518

Penn Center, Inc.	Aging Services, Inc.	Pentacrest, Inc.	Witwer Center, Inc.	Total	Eliminations	Consolidated
$ 166,086	$ 161,908	$ 20,749	$ 56,374	$ 2,181,564	$ -	$ 2,181,564
24,408	-	-	-	75,742	-	75,742
-	-	-	84,787	84,787	-	84,787
81,694	248,190	34,114	32,473	1,334,573	-	1,334,573
-	276,583	12,971	38,127	327,681	-	327,681
187,798	30,726	-	38,851	1,667,483	1,667,483	-
-	-	-	-	15,683	15,683	-
4,215	37,842	1,698	2,816	111,637	-	111,637
464,201	755,249	69,532	253,428	5,799,150	1,683,166	4,115,984
-	-	-	270,207	288,347	18,140	270,207
-	-	-	-	340,389	340,389	-
-	51,689	-	-	51,689	-	51,689
-	51,689	-	270,207	680,425	358,529	321,896
-	190,273	150,000	-	538,023	-	538,023
-	2,316,716	705,995	-	4,234,705	-	4,234,705
25,170	2,286	-	8,788	139,640	-	139,640
106,026	473,630	64,274	270,675	2,375,279	-	2,375,279
38,640	15,943	-	-	297,958	-	297,958
169,836	2,998,848	920,269	279,463	7,585,605	-	7,585,605
110,978	474,421	128,036	227,685	2,470,772	-	2,470,772
58,858	2,524,427	792,233	51,778	5,114,833	-	5,114,833
-	27,607	-	-	27,607	-	27,607
$ 523,059	$ 3,358,972	$ 861,765	$ 575,413	$ 11,622,015	$ 2,041,695	$ 9,580,320

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2005

LIABILITIES AND NET ASSETS	Abbe, Inc.	Abbe Management Corporation	Abbe Center For Community Mental Health	Abbe Center For Community Care, Inc.
CURRENT LIABILITIES				
Accounts payable	$ 29,730	$ 124,149	$ 50,773	$ 86,345
Accrued expenses:				
Accrued vacations	132,158	-	248,208	196,144
Other accrued expenses	50,840	-	129,550	137,110
Due to government agencies, primarily to Linn County	-	-	-	-
Due to affiliates	1,291,835	-	-	124,111
Resident trust funds	-	-	-	51,334
Notes payable, current maturities	34,861	-	5,362	-
Current maturities of obligations under capital leases	-	-	11,409	-
Total current liabilities	1,539,424	124,149	445,302	595,044
LONG-TERM LIABILITIES				
Due to Linn County, Abbe Center for Community Mental Health, Inc.	-	-	102,842	-
Notes payable, less current maturities above	901,355	-	8,043	-
Obligations under capital leases, less current maturities above	-	-	11,408	-
Total long-term liabilities	901,355	-	122,293	-
Total liabilities	2,440,779	124,149	567,595	595,044
NET ASSETS				
Unrestricted	1,187,256	(287,602)	1,270,369	99,474
Temporarily restricted	-	-	-	-
Common stock	-	40,000	-	-
Additional paid-in capital	-	265,742	-	-
Permanently restricted	-	-	-	-
Total net assets	1,187,256	18,140	1,270,369	99,474
TOTAL LIABILITIES AND NET ASSETS	$3,628,035	$ 142,289	$1,837,964	$ 694,518

	Penn Center, Inc.	Aging Services, Inc.	Pentacrest, Inc.	Witwer Center, Inc.	Total	Eliminations	Consolidated
	$ 59,804	$ 92,634	$ 9,752	$ 15,413	$ 468,600	$ -	$ 468,600
	41,540	32,080	7,379	19,333	676,842	-	676,842
	44,930	64,137	20,697	18,784	466,048	-	466,048
	-	-	-	-	-	-	-
	-	175,865	75,672	-	1,667,483	1,667,483	-
	24,408	-	-	-	75,742	-	75,742
	3,958	13,172	15,683	-	73,036	15,683	57,353
	-	-	-	-	11,409	-	11,409
	174,640	377,888	129,183	53,530	3,439,160	1,683,166	1,755,994
	-	-	-	-	102,842	-	102,842
	6,477	474,391	340,389	-	1,730,655	340,389	1,390,266
	-	-	-	-	11,408	-	11,408
	6,477	474,391	340,389	-	1,844,905	340,389	1,504,516
	181,117	852,279	469,572	53,530	5,284,065	2,023,555	3,260,510
	341,942	2,088,259	117,932	466,167	5,283,797	(287,602)	5,571,399
	-	418,434	274,261	38,127	730,822	-	730,822
	-	-	-	-	40,000	40,000	-
	-	-	-	-	265,742	265,742	-
	-	-	-	17,589	17,589	-	17,589
	341,942	2,506,693	392,193	521,883	6,337,950	18,140	6,319,810
	$ 523,059	$ 3,358,972	$ 861,765	$ 575,413	$ 11,622,015	$ 2,041,695	$ 9,580,320

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

	Abbe, Inc.	Abbe Management Corporation	Abbe Center For Community Mental Health	Abbe Center For Community Care, Inc.
PUBLIC SUPPORT AND REVENUE				
Client and resident fees	$ -	$ -	$5,476,036	$5,106,115
Administrative services	1,312,000	-	-	-
Grants	-	-	136,663	-
Auxiliary	-	-	-	164,395
Interest	20,499	906	11,217	155
Rent	44,220	-	-	-
Contributions	100	-	3,507	1,298
Other	3,978	6,875	246,990	13,773
Equity in net profit (loss) of affiliates	(22,917)	-	-	-
Total public support and revenue	1,357,880	7,781	5,874,413	5,285,736
EXPENSES				
Program services:				
Mental health services	-	-	5,312,465	-
Care facilities	-	-	-	4,551,498
Services for the aging	-	-	-	-
Total program services	-	-	5,312,465	4,551,498
Supporting services:				
Management and general	1,324,036	30,698	394,588	686,221
Fundraising	-	-	-	-
Total supporting services	1,324,036	30,698	394,588	686,221
Total expenses	1,324,036	30,698	5,707,053	5,237,719
CHANGE IN NET ASSETS	33,844	(22,917)	167,360	48,017
NET ASSETS, BEGINNING	1,153,412	41,057	1,103,009	51,457
NET ASSETS, ENDING	$1,187,256	$ 18,140	$1,270,369	$ 99,474

Penn Center, Inc.	Aging Services, Inc.	Pentacrest, Inc.	Witwer Center, Inc.	Total	Eliminations	Consolidated
$ 1,652,500	$ 882,394	$ 313,339	$ -	$13,430,384	$ -	$13,430,384
-	-	-	-	1,312,000	(1,312,000)	-
-	797,201	56,506	685,772	1,676,142	-	1,676,142
44,394	-	-	-	208,789	-	208,789
3,393	1,203	68	7,804	45,245	(14,571)	30,674
-	-	18,985	-	63,205	(27,300)	35,905
1,689	844,660	38,938	59,076	949,268	(2,500)	946,768
1,298	41,470	-	7,929	322,313	-	322,313
-	-	-	-	(22,917)	22,917	-
1,703,274	2,566,928	427,836	760,581	17,984,429	(1,333,454)	16,650,975
-	-	-	-	5,312,465	-	5,312,465
1,481,923	-	-	-	6,033,421	-	6,033,421
-	1,711,735	393,615	737,668	2,843,018	(29,800)	2,813,218
1,481,923	1,711,735	393,615	737,668	14,188,904	(29,800)	14,159,104
104,000	119,865	39,571	20,000	2,718,979	(1,326,571)	1,392,408
-	25,538	5,366	-	30,904	-	30,904
104,000	145,403	44,937	20,000	2,749,883	(1,326,571)	1,423,312
1,585,923	1,857,138	438,552	757,668	16,938,787	(1,356,371)	15,582,416
117,351	709,790	(10,716)	2,913	1,045,642	22,917	1,068,559
224,591	1,796,903	402,909	518,970	5,292,308	(41,057)	5,251,251
$ 341,942	$2,506,693	$ 392,193	$ 521,883	$ 6,337,950	$ (18,140)	$ 6,319,810

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2005

	Program Services	Supporting Services	Total
Personnel:			
Wages and salaries	$ 7,940,642	$ 619,174	$ 8,559,816
Employee benefits	1,796,083	170,914	1,966,997
Payroll taxes	561,869	45,090	606,959
	10,298,594	835,178	11,133,772
Resident services:			
Food	534,077	-	534,077
Pharmacy and medical supplies	166,338	-	166,338
Other services	138,415	-	138,415
	838,830	-	838,830
Consulting fees	300,119	-	300,119
Staff development	33,963	11,276	45,239
Computer services	171,379	50,910	222,289
Telephone services	114,610	24,647	139,257
Professional fees	9,506	90,068	99,574
Insurance	366,000	28,610	394,610
Advertising	47,806	671	48,477
Dues and subscriptions	18,772	1,399	20,171
Other	520,972	46,030	567,002
Occupancy	770,842	36,526	807,368
Supplies	353,128	55,512	408,640
Repairs	107,831	8,735	116,566
Provision for doubtful accounts	-	48,254	48,254
Depreciation and amortization	206,752	90,858	297,610
Interest	-	63,734	63,734
Fundraising supplies	-	30,904	30,904
	3,021,680	588,134	3,609,814
Total expenses	$14,159,104	$1,423,312	$ 15,582,416

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
PROGRAM SERVICES
Year Ended June 30, 2005

	Abbe, Inc.	Abbe Management Corporation	Abbe Center For Community Mental Health	Abbe Center For Community Care, Inc.
Personnel:				
Wages and salaries	$ -	$ -	$3,467,727	$ 2,405,612
Employee benefits	-	-	421,937	843,051
Payroll taxes	-	-	220,527	182,937
	-	-	4,110,191	3,431,600
Resident services:				
Food	-	-	-	225,596
Pharmacy and medical supplies	-	-	-	144,511
Other services	-	-	-	87,738
	-	-	-	457,845
Consulting fees	-	-	229,895	-
Staff development	-	-	14,550	8,290
Computer services	-	-	148,387	9,114
Telephone services	-	-	49,307	24,678
Professional fees	-	-	605	3,417
Insurance	-	-	135,054	116,554
Advertising	-	-	26,913	2,130
Dues and subscriptions	-	-	15,019	265
Other	-	-	154,341	45,905
Occupancy	-	-	331,310	274,656
Supplies	-	-	52,867	90,182
Repairs	-	-	7,014	56,405
Depreciation and amortization			37,012	30,457
	-	-	1,202,274	662,053
Total program services	$ -	$ -	$5,312,465	$ 4,551,498

Penn Center, Inc.	Aging Services, Inc.	Pentacrest, Inc.	Witwer Center, Inc.	Total	Eliminations	Consolidated
$ 766,723	$ 816,907	$ 190,332	$ 293,341	$ 7,940,642	$ -	$ 7,940,642
300,256	156,311	37,725	36,803	1,796,083	-	1,796,083
56,777	62,212	14,535	24,881	561,869	-	561,869
1,123,756	1,035,430	242,592	355,025	10,298,594	-	10,298,594
102,826	-	-	205,655	534,077	-	534,077
21,827	-	-	-	166,338	-	166,338
37,552	-	13,125	-	138,415	-	138,415
162,205	-	13,125	205,655	838,830	-	838,830
-	49,727	7,164	13,333	300,119	-	300,119
3,193	6,571	323	1,036	33,963	-	33,963
421	11,830	1,627	-	171,379	-	171,379
10,265	24,060	2,327	3,973	114,610	-	114,610
-	5,316	-	168	9,506	-	9,506
39,953	50,123	13,542	10,774	366,000	-	366,000
341	14,658	3,149	615	47,806	-	47,806
150	2,143	1,195	-	18,772	-	18,772
24,799	228,612	19,330	50,485	523,472	(2,500)	520,972
54,177	70,802	20,512	46,685	798,142	(27,300)	770,842
35,188	114,806	29,350	30,735	353,128	-	353,128
14,793	17,725	7,741	4,153	107,831	-	107,831
12,682	79,932	31,638	15,031	206,752	-	206,752
195,962	676,305	137,898	176,988	3,051,480	(29,800)	3,021,680
$ 1,481,923	$1,711,735	$ 393,615	$ 737,668	$14,188,904	$ (29,800)	$14,159,104

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
SUPPORTING SERVICES
Year Ended June 30, 2005

	Abbe, Inc.	Abbe Management Corporation	Abbe Center For Community Mental Health	Abbe Center For Community Care, Inc.
Management and General				
Personnel:				
Wages and salaries	$ 619,174	$ -	$ -	$ -
Employee benefits	170,914	-	-	-
Payroll taxes	45,090	-	-	-
	835,178	-	-	-
Resident services:				
Food	-	-	-	-
Pharmacy and medical supplies	-	-	-	-
Other services	-	-	-	-
	-	-	-	-
Administrative fee	-	20,000	378,000	663,000
Staff development	11,276	-	-	-
Computer services	50,910	-	-	-
Telephone services	24,647	-	-	-
Professional fees	90,068	-	-	-
Insurance	28,610	-	-	-
Advertising	671	-	-	-
Dues and subscriptions	1,399	-	-	-
Other	43,387	2,643	-	-
Occupancy	36,526	-	-	-
Supplies	55,512	-	-	-
Repairs	8,735	-	-	-
Provision for doubtful accounts	-	-	13,990	22,879
Depreciation and amortization	82,803	8,055	-	-
Interest	54,314	-	2,598	342
	488,858	30,698	394,588	686,221
Fundraising				
Supplies	-	-	-	-
Total supporting services	$1,324,036	$ 30,698	$ 394,588	$ 686,221

Penn Center, Inc.	Aging Services, Inc.	Pentacrest, Inc.	Witwer Center, Inc.	Total	Eliminations	Consolidated
$ -	$ -	$ -	$ -	$ 619,174	$ -	$ 619,174
-	-	-	-	170,914	-	170,914
-	-	-	-	45,090	-	45,090
-	-	-	-	835,178	-	835,178
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
104,000	102,000	25,000	20,000	1,312,000	(1,312,000)	-
-	-	-	-	11,276	-	11,276
-	-	-	-	50,910	-	50,910
-	-	-	-	24,647	-	24,647
-	-	-	-	90,068	-	90,068
-	-	-	-	28,610	-	28,610
-	-	-	-	671	-	671
-	-	-	-	1,399	-	1,399
-	-	-	-	46,030	-	46,030
-	-	-	-	36,526	-	36,526
-	-	-	-	55,512	-	55,512
-	-	-	-	8,735	-	8,735
-	11,385	-	-	48,254	-	48,254
-	-	-	-	90,858	-	90,858
-	6,480	14,571	-	78,305	(14,571)	63,734
104,000	119,865	39,571	20,000	1,883,801	(1,326,571)	557,230
-	25,538	5,366	-	30,904	-	30,904
$ 104,000	$ 145,403	$ 44,937	$ 20,000	$ 2,749,883	$ (1,326,571)	$ 1,423,312

ABBE, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Heritage Area Agency on Aging:			
Special Programs for the Aging, Title III, Part B	93.044	-	$45,493
Special Programs for the Aging, Title III, Part C	93.045	-	262,293
Special Programs for the Aging, Title IV and Title II, Discretionary Projects	93.048	-	44,267
National Family Caregiver Support	93.052	-	1,558
			353,611
Passed through State of Iowa Dept. of Human Services, Division of Behavioral, Developmental and Protective Services:			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	05-0444-401-6890-2597-01	31,127
Block Grants for Community Mental Health Services	93.958	05-0324-041-6440-1240-01	68,533
			453,271
U.S. DEPARTMENT OF AGRICULTURE			
Passed through State of Iowa Dept. of Education, Bureau of Food and Nutrition:			
Child and Adult Care Food Program	10.558	52-9501	41,907
Child and Adult Care Food Program	10.558	57-9501	14,548
Passed through Heritage Area Agency on Aging:			
Nutrition Services Incentive	10.570	-	112,746
			169,201
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through City of Cedar Rapids,			
Community Development Block Grant	14.218		6,145
TOTAL			$628,617

This schedule should be read only in connection with the accompanying notes to the schedule of expenditures of federal awards.

ABBE, INC. AND SUBSIDIARIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Abbe, Inc.
Cedar Rapids, Iowa

We have audited the consolidated financial statements of Abbe, Inc. and subsidiaries as of and for the year ended June 30, 2005, and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above (item 2005-1) is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Cedar Rapids, Iowa
September 2, 2005

Independent Auditor's Report on Compliance with Requirements Applicable to Major Programs and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Abbe, Inc.
Cedar Rapids, Iowa

Compliance

We have audited the compliance of Abbe, Inc. and subsidiaries with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards***,** issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Organization's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-A.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above (item 2005-A) is not a material weakness.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Cedar Rapids, Iowa
September 2, 2005

ABBE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? ______ yes ___X___ no
- Reportable condition identified that are not considered to be material weaknesses? ___X___ yes _______ none reported

Noncompliance material to financial statements noted? ______ yes ___X___ no

Federal Awards

Internal control over major programs:

- Material weakness identified? ______ yes ___X___ no
- Reportable condition identified that are not considered to be material weakness? ___X___ yes _______ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? ______ yes ___X___ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.044/93.045	Special Programs for the Aging, Title III
93.048	Special Programs for the Aging, Title IV & Title II, Discretionary Projects

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? _______ yes ___X___ no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2005-1: Segregation of Duties

Criteria:

The Organization should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition:

The Organization does not have adequate segregation of duties over all accounting transactions.

ABBE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

Context:

Internal controls that are in place could be averted, overridden, or not consistently implemented.

Effect:

As result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:

The Organization has a limited number of personnel performing accounting functions.

Recommendation:

When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend the Organization review its operating procedures to obtain the maximum internal control possible under the circumstances.

Management Response:

With a limited number of office employees, segregation of duties is sometimes difficult. Management is aware of the lack of segregation of duties and has considered alternatives to improve the situation. Management is monitoring the situation and is segregating accounting duties where practical.

ABBE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No. 2005-A: Segregation of Duties

CFDA # 93.044/93.045 and 93.048, U.S. Department of Health and Human Services, passed through the Heritage Area Agency on Aging.

See Finding No. 2005-1, reported in Section II of this schedule, for comments.

ABBE, INC.
CORRECTIVE ACTION PLAN
Year Ended June 30, 2005

Finding No. 2005-1 and 2005-A: Segregation of Duties

The Finance Committee will continue to monitor monthly financial results. The Finance Committee will also continue to monitor this situation and will segregate accounting duties where possible.

ABBE, INC.
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2005

The Finance Committee is monitoring monthly financial results and continues to review and segregate accounting duties where possible.